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SUBJECT: ITALY,S PASSIVE APPROACH TO TRADE POLICY

Classified By: Economic Minister-Counselor Scott Kilner for reasons 1.4
(b) and (d)

11. (C) Summary. Italy defers to other EU member states, especially France and Germany, in setting the direction of EU trade policy, despite the size of the Italian economy and the importance of trade to the country's prosperity. Italian trade officials generally support U.S. views on many issues, and have been a voice for moderation on most of the U.S.-EU trade disputes in recent years. Nevertheless, the GOI has rarely been a strong advocate with other EU member states, even on issues of particular interest to Italy, with the exception of expanding WTO protection of geographic indicators and, more recently, efforts to counter Chinese competition to Italy's textile industry. On perhaps the most contentious current bilateral trade dispute, large commercial aircraft subsidies, the GOI has taken a characteristically low-keyed approach, even though the Italian aerospace firm Alenia Aeronautica is a major partner in the Boeing 787 project.

12. (C) The passivity of trade officials has given Agriculture Minister Alemanno the ability to drive GOI policy on agricultural biotechnology, despite the pro-GMO tendencies of other ministries. The Chinese threat to Italy's textile and footwear industries recently has invigorated senior GOI trade officials as have few other issues in recent years, resulting in the European Commission's taking action in favor of Italy and other major textile producers despite the reservations of some member states. However, we do not believe this recent activism presages a more assertive Italian trade policy generally. For the most part, we anticipate continued Italian reluctance to take positions that are out-of-step with the Commission and other EU member states. End summary.

13. (C) Despite the Italian economy's heavy reliance on foreign trade, trade officials in Rome tend to react passively, if at all, on most issues, even those that threaten Italy's national prosperity. Such meekness is somewhat surprising given the relative youthfulness and vigor that have characterized the top officials overseeing Italian foreign trade policy since Silvio Berlusconi took office in 2001. Director General for Commercial Agreements Amedeo Teti (essentially the "assistant secretary" responsible for international trade) replaced a bureaucrat decades older in 2002, and has extensive trade experience both in Italy and Geneva (he is Italy's principal representative on the European Commission's 133 Committee on trade). Our other direct contacts in the ministry include both veteran bureaucrats with extensive experience and young officials who are well versed on current issues.

14. (C) Vice Minister of Productive Activities (MPA) Adolfo Urso, essentially the GOI's trade minister, is an accomplished politician, a leading member of the National Alliance (one of the two larger parties in the governing coalition), and a protege of Foreign Minister/Deputy Prime Minister Gianfranco Fini (who is widely viewed as a possible successor to Berlusconi in a future center-right government). Urso came to his position within the most stable government Italy had seen in half a century (notwithstanding the political turmoil of recent weeks, resulting in a new Berlusconi-led center-right government), which could have further encouraged him and his staff to take a proactive approach on foreign trade issues. Yet in the nearly four years they have guided Italy's trade policy, Urso and his staff have shown limited inclination, with a few exceptions, to persuade other EU member states to strongly advocate positions of particular interest to Italy.

15. (C) Some of the inertia of foreign trade officials may stem from the incorporation in 2001 of the Ministry of Foreign Trade within the Ministry of Industry (which was renamed the Ministry of Productive Activities, or MPA). This reorganization was legislated by the outgoing center-left government and took effect just as Berlusconi's center-right

government entered office. The downgraded "vice ministry" continues to occupy the same building on the outskirts of Rome, many miles from the MPA's central Rome location. Even after five years, the building still displays a prominent "Ministry of Foreign Trade" sign (in Italian), indicative of the two ministries' continued lack of integration. Though the Minister of Productive Activities has nominal responsibility

for foreign trade issues, in practice the vice minister frequently acts independently (though not in every case, which can confuse the lines of authority for Foreign Trade bureaucrats). We are watching with interest whether the new Minister of Productive Activities, Claudio Scajola, widely viewed as more politically connected and demanding than his predecessor, will have more success at integrating the two ministries.

Pro-U.S. Tendencies, But Limited Support

16. (C) MPA/Foreign Trade,s passive tendencies can be particularly frustrating, given the ministry,s general alignment with the United States on many trade issues, including some of the most high-profile recent disputes. For example, ministry contacts, including Urso, have long told us that the U.S.-EU dispute over the U.S. foreign sales corporation tax provisions (FSC) is a distraction best resolved as quickly as possible. Nevertheless, in the run-up to the European Commission decision to impose retaliatory tariffs, and more recently when the EC asked the WTO to review recent U.S. tax legislation that grandfathers certain provisions of the abolished system, the GOI did not take any noticeable steps to temper EC actions.

17. (C) Sandro Fanella, who directs the Foreign Trade office that oversees both WTO issues and bilateral trade relations with the U.S. (and regularly attends the EC 133 Committee meetings as Teti's deputy), told us April 13 that the Commission,s approval of retaliatory tariffs provided political cover, but he predicted the Commission would decline to implement them if the WTO rules against the U.S. Though Fanella,s long experience would persuade us not to bet against him, his wait-and-see attitude typifies the Vice Ministry,s passivity on an issue in which we have repeatedly asked for greater GOI support.

18. (C) Vice Minister Urso,s pro-U.S. tendencies also occasionally veer into surreal, or at least impractical, territory. A particularly striking example occurred in May 2003, when Ecmin raised with Urso the U.S. decision to initiate a WTO case against the EU over its moratorium on agricultural biotech approvals. Urso responded by advancing his own complicated idea -- that the range of U.S.-EU trade disputes (steel, FSC, biotech, geographical indicators, and even our competing WTO agricultural proposals) should be linked to facilitate their simultaneous resolution. He suggested that each issue could be negotiated separately but in parallel, with the clear understanding that tradeoffs would be necessary. Though we countered that the U.S. believed that each issue needed to be resolved separately, on its own merits, Urso claimed that he would discuss his idea of a "grand bargain" with the Prime Minister and even with WTO Director General Supachai and then-European Trade Commissioner Lamy. We suspect, however, that Urso never advanced this proposal any further than our meeting. His often unrealistic approach to resolution of trade issues certainly makes us wonder how effective an advocate he has been for Italian trade interests in Brussels and in Geneva.

19. (C) Until just recently, protection of geographic indications (GIs) has been the only trade issue over the last few years that Urso and his staff have pushed aggressively and consistently. Italy is a driving force behind EU efforts to extend WTO protection of GIs beyond wine and spirits. Our efforts to convince the GOI that GI protection is an issue for the TRIPS Council, and that our system of trademarks is a more effective and practical approach, fall on deaf ears. During the 2003 WTO Ministerial in Cancun, the Italian delegates panicked that the U.S. and the EU were seeking a common agreement on several issues that reportedly would have sacrificed the EU,s position on enhanced GI protection. Italy,s anxiety was so high that senior officials in the Prime Minister,s office contacted the White House asking that the U.S. back down from our alleged demands that the EU give in on GI protection. In the end, the breakdown of the ministerial prevented GIs from being addressed. While we assume the GOI lobbied strongly with the Commission against any concessions on GI protection, it is telling that top-level Italian government officials in this instance did not believe Italy had sufficient influence with the Commission to derail such a concession, and thus felt obliged to contact the U.S. directly.

110. (C) The GOI,s actions in Cancun also illustrate more broadly Italy,s limited influence on European Commission positions regarding the current round of WTO negotiations.

Other than GI protection, Italian trade officials have repeatedly indicated to us that they generally are content to allow the Commission to drive positions, which allows other EU member states to exert greater influence (such as France on agricultural talks, and Germany on non-agricultural market access negotiations). Despite statements by our foreign trade contacts in early 2003 that Italy planned to exert more influence on EU trade interests during the course of its EU presidency in the second half of 2003, we never detected any significant increase in GOI activism.

Boeing vs. Airbus: Italy's Unique Position

11. (C) Italy has much at stake in the high-profile dispute over large commercial aircraft (LCA) subsidies. Alenia Aeronautica, a subsidiary of Italian defense conglomerate Finmeccanica (in which the GOI holds a 32 percent stake), is a leading partner in Boeing's 787 Dreamliner program. Alenia's joint venture with the U.S. firm Vought Aircraft Industry will produce 60 percent of the plane's fuselage (thus producing a total of about 26 percent of the entire plane). Italy is not part of the Airbus consortium, although Alenia is a subcontractor to produce about four percent of the fuselage for the A380 aircraft, and has participated in previous Airbus projects as well. Alenia Aeronautica CEO Giovanni Bertolone told econoff April 15 that the company is concerned about the current U.S.-EU stalemate on negotiating a new subsidies agreement. He is nonetheless optimistic about the success of the 787 project, noting that Boeing has received over 200 orders. He said Airbus cannot yet count on the A380 breaking even; given its huge investment costs, it will need to sell more than twice its confirmed orders so far. Bertolone also expressed doubts about the viability of the Airbus A350 program, even with subsidies, since its development lags several years behind that of its perceived competitor, the 787.

12. (C) Our MPA/Foreign Trade contacts also call for the LCA subsidies dispute to be resolved quickly. However, they have admitted to us that the GOI is not pressing the European Commission to reach an agreement with the U.S. Our recent conversations indicate they do not believe they can effectively influence the four Airbus countries (UK, Germany, France, and Spain), so they have apparently decided to stay mostly quiet. Over lunch with Ecmin on April 13, Foreign Trade's Director General Teti expressed surprise at our suggestion that Italy should play a more assertive role within the EU towards reaching a solution on LCA subsidies. For his part, Alenia's Bertolone told us that, though Alenia would appreciate a more proactive approach from the government towards a resolution on subsidies, he was not overly concerned (perhaps due to his doubts about the viability of the A350). It seems to us likely that Alenia's relative sanguineness on the issue has only reinforced the Trade Ministry's inclination toward passivity.

Other Ministries Also Passive - With One Significant Exception

13. (C) Other Italian ministries with a stake in trade issues do not pick up the slack left by MPA/Foreign Trade, except in the area of agriculture. The MFA has no equivalent to the various trade offices in the State Department's Economic Bureau - its General Directorate for Multilateral Economic and Financial Cooperation (Italian acronym DGCE) plays an inconsequential role most of the time in setting Italian trade policy. One exception involves trade issues discussed within the G-8 process, as the DGCE's Deputy Director General is Italy's Sous Sherpa on G-8 economic issues. The MFA's General Directorate for European Integration occasionally intervenes on a trade issue if such an issue is scheduled for discussion by the COREPER in Brussels; but even in these cases, it looks to MPA/Foreign Trade for policy guidance.

14. (C) The Ministry of Agricultural Policy, in contrast, is anything but passive when it comes to Minister Gianni Alemanno's pet cause - inhibiting at every turn, through whatever means possible, the cultivation and trade in

agricultural biotech products. Like Urso, Alemanno is another up-and-coming politician from the same National Alliance party, and correctly perceives opposition to agricultural biotech as a politically expedient means to build his political capital. In this respect, he is unlike Urso, however, who at least until recently has not tended to use foreign policy issues under his purview to opportunistically burnish his public image.

15. (C) Despite Urso's professed openness to increased cultivation of GMOs in Italy, he has consistently been unwilling to confront Alemanno, and is even unwilling to have his ministry take pro-GMO decisions in Brussels when the MPA, not MinAg, has the lead. In this last respect, Urso is in good company, as all GMO-tolerant ministers within the GOI

downplay their differences with Alemanno (except in private with us), due in large part to the Italian public's significant opposition to GMOs.

Chinese Textiles: Urso Energized by a Perceived Threat

16. (C) Vice Minister Urso has demonstrated uncharacteristic vigor in the last few months regarding the threat to key Italian industries from increased Chinese textile and apparel imports, following the expiration of the multilateral Textile Trade Agreement. To promote Italian foreign trade, his ministry organized a well-received conference in February that attracted several thousand participants, including Prime Minister Berlusconi, Foreign Minister Fini, numerous other senior GOI officials, and many of Italy's top business executives. At the conference, Urso appealed for EU action to counter the perceived Chinese threat, an issue also raised by both Berlusconi and Fini. Urso's appeal undoubtedly stemmed, at least in part, from political considerations, with the Northern League party (one of two smaller partners in the Berlusconi coalition government) urgently calling in its campaign rhetoric for duties to be applied to Chinese imports. Urso appears to be using the issue to broaden his appeal (and that of his National Alliance party), in a similar fashion to Alemanno's campaign against GMOs. Unlike Alemanno, however, Urso has the backing of just about every party across the political spectrum in calling for the EU to impose WTO-consistent safeguards measures on Chinese textile imports.

17. (C) During a meeting with then-Commerce Under Secretary Grant Aldonas in mid-March, Urso was emphatic about the Chinese threat to the Italian textile industry. He suggested that Italy and the U.S. cooperate to gauge the nature of the threat accurately. Urso also emphasized that he planned to push for immediate EC action during a meeting with European Trade Commissioner Mandelson later that week. By some accounts Italy has been the most active member state to push the Commission to act. Nevertheless, Mandelson's announcement in mid-April of guidelines that would later trigger actual EC action on safeguard measures fell well short of Urso's call for immediate relief.

Comment - Why Such Passivity?

18. (C) Italy's generally passive approach to trade issues did not begin with Urso's tenure as Vice Minister and will very probably persist after he leaves the ministry. To a certain extent, such passivity results from the European Commission's jealously guarded responsibility for the trade policies of all EU member states, a reality that limits even the most activist Member State officials. However, the Commission's authority clearly does not prevent some other countries from exerting substantially more influence on Brussels than does Italy. Aside from this issue of competency, we perceive that Urso and the career bureaucrats in his ministry reflect a broader, long-standing Italian tendency to seek the middle ground within the EU. Italy has been a very strong, across-the-board supporter of the European Project from the beginning, and has shown this support by (mostly) downplaying those national interests that may be at odds with the EU as a whole.

19. (C) In the past, the GOI's limited effectiveness in Brussels could also be attributed to Italy's frequent changes in coalition governments. Such changes made policy continuity difficult, especially in the case of controversial

policies, thereby encouraging Italian bureaucrats to follow the EU consensus. Recent experience indicates, however, that even a long-lived governing coalition may not automatically lead to a more assertive Italian projection of national interests, at least in economic issues where the EU has the lead. (On Common Security and Foreign Policy--i.e. second pillar--issues, where Commission competence is more limited, the Berlusconi government has become more assertive, for example in supporting the U.S. on Iraq and successfully resisting Franco-German attempts to establish a separate defense planning headquarters outside the Berlin-plus arrangements. Italy has not been in the vanguard, however, in the other area of EU Member State competency, judicial and law enforcement--i.e. third pillar--issues, which includes counterterrorism. Italy's EU Commissioner, Franco Frattini, heads this portfolio.)

20. (C) The main implication for the U.S. of the dynamic described in this message is that even when Italy's interests are aligned with ours in trade disputes with the EU Commission and the larger Member States, we cannot count on Italy's meaningful support. This situation is likely to continue until such time as Italian trade officials see Italy's long-term national interests better served by becoming the thorn in the Commission's side, rather than the poodle in its lap. End comment.

121. (U) This message was drafted by John Finkbeiner, based on his experience over the last three years as Rome's trade policy officer.

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